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| **APPLICATION FORM IF011**  **APPLICATION FOR TO USE AN ALTERNATIVE INTEREST RATE TERM STRUCTURE FOR THE PURPOSES OF CALCULATING TECHNICAL PROVISIONS** |

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| **Purpose of this document**  This application form needs to be completed when applying for approval to use an alternative interest rate term structure to discount cash-flows on liabilities that are matched with swap-based assets, as required in terms of section 36(6)(a) of the Insurance Act, 2017 (the Act) and:   * In respect of an insurer, section 13.2 of Financial Soundness Standard for Insurers Valuation of Technical Provisions (FSI 2.2); and * In respect of an insurance group, section 5.1(b) of the Financial Soundness Standard for Insurance Groups Accounting Consolidation Method (FSG 3). |

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| **Important information to complete this form**  Before completing this form, read the Fact Sheet Application and Notification Forms (Fact Sheet) that is available on the website of the SARB. The Fact Sheet contains important information on consent and declarations required. Please note: this application could include a prescribed fee, in accordance with [Prudential Standard IAF](http://www.resbank.co.za/PrudentialAuthority/Insurers/Post%20Insurance%20Act/Legislation%20and%20Regulatory%20instruments/Prudential%20Standards/Documents/Prudential%20Standard%20IAF.pdf), 2019 with the process for payment found [here](http://www.resbank.co.za/PrudentialAuthority/Insurers/Post%20Insurance%20Act/Legislation%20and%20Regulatory%20instruments/Prudential%20Standards/Documents/Process%20for%20payment%20of%20fees%20prescribed%20in%20terms%20of%20the%20Insurance%20Act.pdf). |

## Reason for approval

* 1. **Describe the reason for seeking this approval**

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## Specific Information

* 1. Justification for using a swap curve

#### Provide a detailed description of the business for which it is proposed that the valuation of the best estimate liability be based on an alternative interest rate term structure, i.e. be based on a swap curve. This description should include the lines and sub-lines of business.

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#### Provide a description of the assets that are proposed to back these liabilities, including the proportionate split between these assets and the Complementary Identification Codes (CIC codes) of these assets in appropriate detail.

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#### Explain why it would be appropriate to value these liabilities using a swap curve.

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* 1. Other information

#### Is there any additional information that is not requested elsewhere in this form, that is relevant for the Prudential Authority to assess this form?

**No** 🡺 Continue to section 3

**Yes** 🡺 Complete question 2.2.2

#### Provide a summary or list of the additional information, including the reasons for providing this additional information and attach to this form.

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## Methodology

* 1. Methodology: Overview

#### Provide a brief overview of the proposed methodology to derive the swap curve.

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* 1. Methodology: Market data

#### Describe the market data that is used to derive the swap curve, including the durations for which this market data is available and the different sources from where it is obtained.

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#### Which type of market data is used to derive the swap curve?

**Bid yields** 🡺 Continue to question 3.2.4

**Mid yields**  🡺 Continue to question 3.2.4

**Offer yields** 🡺 Continue to question 3.2.4

**Other types of yields** 🡺 Continue to question 3.2.3

#### If neither bid nor mid nor offer yields are used, provide an explanation of the type of yields that are used.

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#### Explain why it is appropriate to derive the swap curve using the type of yield that is selected in question 3.2.2 commenting specifically on why this approach is consistent with the valuation of the assets mentioned in question 2.1.2

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#### Is the market data derived from a deep and liquid market?

**No** 🡺 Complete question 3.2.6 and continue to question 3.2.8

**Yes** 🡺 Continue to question 3.2.7

#### Provide reasons why it is appropriate to use this market data, despite it not being derived from a deep and liquid market.

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#### Provide the reasons for the answer to question 3.2.5, i.e. provide the reasons why the market is viewed as being deep and liquid.

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#### Is any market data manually excluded for purposes of deriving the swap curve?

**No** 🡺 Continue to question 3.2.10

**Yes** 🡺 Continue to question 3.2.9

#### If any market data is manually excluded for purposes of deriving the swap curve, provide detailed information on the following:

* The reason for excluding this data; and
* A description of any expert judgement that applied when deciding which data to exclude.

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#### Are any manual adjustments, other than excluding market data, applied to the market data?

**No** 🡺 Continue to question 3.2.12

**Yes** 🡺 Continue to question 3.2.11

#### If any other manual adjustments are applied to the market data, provide detailed information on the following:

* A description of the manual adjustments;
* The reason for the adjustments;
* The methodology used to make the adjustments; and
* A description of any expert judgement that is applied when making the adjustments.

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#### Explain in detail how conflicting market data is allowed for, for example inconsistencies between different sources of market data.

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* 1. Methodology: interpolation and extrapolation

#### Describe the interpolation methodology that is used to derive the swap curve.

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#### Describe in detail any manual adjustments or expert judgement that is applied during the interpolation process.

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#### Describe the extrapolation methodology that is used to derive the swap curve at durations beyond the available market data.

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#### Describe in detail any manual adjustments or expert judgement that is applied during the extrapolation process.

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#### Describe how the results from the interpolation and extrapolation processes are merged to create a smooth swap curve.

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#### Is an ultimate forward rate used?

**No** 🡺 Continue to question 3.3.10

**Yes** 🡺 Complete the remainder of this section, except question 3.3.10

#### Provide the ultimate forward rate.

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#### Explain the methodology used to derive the ultimate forward rate.

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#### Explain the methodology that is used to ensure that the swap curve converges to the ultimate forward rate.

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#### If an ultimate forward rate is not used, explain in detail the methodology that is used to set the long-term swap rates.

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* 1. Methodology: Inclusion of investment management expenses

#### Provide the below confirmation:

**Confirm that the swap curve does not allow for investment management expenses**

* 1. Methodology: Removal of margins for credit risk

#### Does the market data contain margins for credit risk?

**No** 🡺 Continue to question 3.5.5

**Yes** 🡺 Complete the remainder of this section, excluding question 3.5.5

#### If the market data contains margins for credit risk, provide confirmation that the margins for credit risk are excluded from the swap curve.

**Confirm that the margins for credit risk are excluded from the swap curve**

#### If the market data contains margins for credit risk, explain how the margins for credit risk are quantified in order to exclude it from the swap curve. This description should cover at least the following information:

* Descriptions of any market data that was used in quantifying the margin, including descriptions of the instruments from which this market data is derived; and
* Descriptions of any interpolation or extrapolation methodologies that were used, including how the interpolation and extrapolation results were merged to ensure a smooth progression of the margin.

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#### Describe in detail any manual adjustments or expert judgement that are applied in quantifying the margins for credit risk.

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#### If the market data does not contain margins for credit risk, explain why this is believed to be the case.

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* 1. Methodology: Removal of margins for liquidity risk

#### Does the market data contain margins for liquidity risk?

**No** 🡺 Complete question 3.6.2

**Yes** 🡺 Continue to question 3.6.3

#### If the market data does not contain margins for liquidity risk, explain why this is believed to be the case.

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#### If the market data contains margins for liquidity risk, provide confirmation that the margins for liquidity risk are excluded from the swap curve.

**Confirm that the margins for liquidity risk are excluded from the swap curve**

#### If the market data contains margins for liquidity risk, explain how the margins for liquidity risk are quantified in order to exclude it from the swap curve. This description should cover at least the following information:

* Descriptions of any market data that was used in quantifying the margin, including descriptions of the instruments from which this market data is derived; and
* Descriptions of any interpolation or extrapolation methodologies that were used, including how the interpolation and extrapolation results were merged to ensure a smooth progression of the margin.

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#### Describe in detail any manual adjustments or expert judgement that are applied in quantifying the margins for liquidity risk.

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#### If there is any additional information on the methodology that is not requested elsewhere in this application form, that you feel are relevant for the Prudential Authority to assess this application, provide this additional information.

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* 1. Methodology: Additional information

#### If there is any additional information on the methodology that is not requested elsewhere in this application form, that you feel are relevant for the Prudential Authority to assess this application, provide this additional information.

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## Control environment

* 1. Control environment

#### Provide the internal documentation of the methodology used to derive the swap curve. This information is requested to assess the sufficiency of this internal documentation in terms of governance.

#### Describe the controls that are in place to provide assurance that the swap curve is derived accurately.

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## Reporting

* 1. Ability to update swap curve

#### In the normal course of business, how frequently will the swap curve calculation be updated?

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#### How quickly can the swap curve be derived? In other words, if there is an unexpected event that requires an urgent valuation to be performed, how long will it take to derive an updated swap curve?

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## Swap Curve Results

* 1. Results

#### Provide the information required in the Excel template accompanying this form.

* 1. Sensitivities

#### Was the derivation of the yield curve subject to any sensitivity tests, for example, to assess the impact of different decisions in terms of manual adjustments or expert judgement?

**No** 🡺 Complete question 6.2.2 and then continue to section 6.3

**Yes** 🡺 Continue to question 6.2.3

#### Provide reasons for not performing sensitivity tests.

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#### Provide a detailed description of each sensitivity test.

**Description of sensitivity 1**

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**Description of sensitivity 2**

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**Description of Sensitivity 3**

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* 1. Additional information

#### If the swap curve derivation requires the removal of margins for credit risk, then provide the margin that was removed at each of the specified durations. This information should be included in the Excel template accompanying this form (sheet *Margins*).

**This information is not included in the template, since margins for credit risk are not removed****.**

#### If the swap curve derivation requires the removal of margins for liquidity risk, then provide the margin that was removed at each of the specified durations. This information should be included in the Excel template accompanying this form (sheet *Margins*).

**This information is not included in the template, since margins for liquidity risk are not removed**

## Attachment Checklist

* 1. Compulsory attachments

Complete the following table with details of the attachments provided.

| **Attachment Number** | **Question Number** | **Description** | **Number of pages/sheets** | **Attached** |
| --- | --- | --- | --- | --- |
| A1 | 6.1.1 | Excel template accompanying this form (*Example\_template\_name.xlsb*) |  |  |
| A2 | 8 | Consent and Declarations |  |  |

* 1. Other Attachments

Complete the following table with details of the attachments provided, also indicating the number of pages of each attachment. For example, attachments might be required if there was not sufficient space to include the information in the form itself or if your responses in this form refer to external documents. Add additional rows for each attachment included:

| **Attachment Number** | **Question Number** | **Description** | **Number of pages/sheets** | **Attached** |
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| e.g. B1 | 2.2 |  | 8 |  |

## Consent and Declarations

To assess the application or notification, the Prudential Authority needs to ensure that the information in the application or notification is accurate and complete, and may be verified and shared with other regulatory authorities. Please see the Fact Sheet on the SARB website for the required consent and declarations that must accompany this form.